Bell Atlantic

Bell Atlantic Network Services, Inc.
1133 20th Street, N.W.
Suite 800
Washington, DC 20036
202 392-6980
FAX 202 392-1687

Patricia E. Koch
Assistant Vice President
Federal External Affairs and Regulatory Relations

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April 8, 1997

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APR 8 1997

Federal Communications Commission
Office of Secretary

EX PARTE

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: CC Docket No. 96-45 and 96-262

Dear Mr. Caton:

Yesterday, on behalf of AT&T, Joel Lubin, and on behalf of NYNEX, Frank Gumper and David Hatton, and on behalf of Bell Atlantic, the undersigned met with Ken Moran and Andy Mulitz of the Common Carrier Bureau's Audits and Accounting Division to discuss the above captioned proceedings. A copy of the handout distributed during the meeting is attached.

Due to the close proximity of several meetings and the lateness of the hour, this ex parte is being filed one day late. Please enter this letter into the record as appropriate.

Sincerely,

Attachment

cc: K. Moran
A. Mulitz

No. of Copies rec'd 04
List ABCDE

Contact:
Jamie DePeau
NYNEX
202-336-7825

Shannon Fioravanti
Bell Atlantic
703-974-5455

Jim McGann
AT&T
202-457-3942

AT&T, BELL ATLANTIC, NYNEX TO SUBMIT COMPROMISE PROPOSAL TO REFORM UNIVERSAL SERVICE, ACCESS CHARGES

Historic agreement by industry rivals fulfills goals of Telecom Act

FOR RELEASE FRIDAY, APRIL 4, 1997

WASHINGTON -- Officials of AT&T, Bell Atlantic and NYNEX today announced they've agreed to a compromise proposal that will fully fund universal service, signficantly reduce the interstate access fees long distance companies pay to reach customers and give consumers lower rates.

Officials at the three companies said their proposal would:

o fully fund the joint board recommendation to give schools, libraries and rural healthcare providers discounted access to advanced services.

o expand the funding to ensure basic telephone service is affordable for those living in high cost rural areas and for the needy.

o dramatically reduce the fees long distance companies pay for access to their customers, resulting in lower prices for consumers.

Under the proposal, to be filed today with the Federal Communications Commission, long distance access fees would drop beginning July 1 by $2.5 billion. After long distance companies pay their new universal service obligations, they've pledged to lower rates by a net reduction of $1.8 billion.

- more -

"This plan meets the twin challenges of providing consumers with a price break on their telephone bills while at the same time fully funding the programs to bring the Information Age to our schools, libraries, health care facilities, and lower-income and rural Americans," said Tom Tauke, executive vice president, government affairs, NYNEX.

"Under our proposal, consumers would see benefits of the Telecommunications Act. Our three companies have shown there is common ground and that universal service and access charges can be reformed while consumers get lower prices," said Gerry Salemme, AT&T vice president-regulatory affairs.

"This proposal is good for American consumers," said Edward D. Young III, vice president and associate general counsel, Bell Atlantic. "In the long run, they'll save millions on long distance bills while making a small contribution to link schools and libraries to the best telecommunications technology, regardless of location."

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FACT SHEET
AT&T/Bell Atlantic/NYNEX Access Charge and Universal Service Plan
April 4, 1997

HIGHLIGHTS

- **$400 million reduction in consumer telephone bills.**
- **"Connect America Plan" fully funds the Universal Service Joint Board Recommendations to connect schools, libraries and rural not-for-profit health care providers, consistent with the Telecommunications Act of 1996.**
- **Universal Service funds reduction in access charges of rural telephone companies.**
- **45% reduction in per minute access charges.**

Effective July 1, 1997

- Immediate reduction of access charges of approximately $2.5 billion. Local Exchange Companies will reduce charges by a combination of:
  a) The greater of one of the following methods:
    1. Reduce rates using existing Price Cap Mechanism
    2. Phase out 20% of the Transport Interconnect Charge; or
    3. Reduce rates to a 11.25% earnings level, and

  b) Increase the subscriber line charge caps on business lines (single line cap from $3.50 to $6.00; multiline cap from $6.00 to $8.00) Charges capped at $6.00 and $8.00 respectively.

- All reductions applied first to the Transport Interconnection charge (TIC).

- AT&T commits to passing access rate reductions along to residential and business customers in the form of lower long-distance rates.

- Begin implementation of the Universal Service Plan.

- Begin implementation of Connect America Plan to cover cost of connecting schools, libraries, rural health care, lifeline, link-up and customers of small rural telephone companies to the Information Superhighway. It will be assessed on all telephone users in three phases for a total cost of 75 cents per line, per month. Phase I of Connect America Plan - 25 cents per line, per month.

Effective January 1, 1998

- Establish a Presubcribed Line Charge billed to long-distance carriers ($1 per residential line, $2 per business line), which will further reduce access usage rates to 1.5 cents per minute for a total reduction of 45%.

- No subscriber line charge increase for residence or business customers.

- Phase II of Connect America Plan - charge moves to 50 cents per line, per month.

Effective July 1, 1998

- Further access reductions will be implemented based on the phase out of the remaining Transport Interconnection Charge or the Annual Price Cap reduction.

- Phase III of Connect America Plan - charge moves to 75 cents per line, per month.

NYNEX Government Affairs
1300 I Street NW Suite 400 West Washington DC 20005
202 336 7911

G R Evans
Vice President
Federal Regulatory Affairs

NYNEX

April 4, 1997

EX PARTE

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW - Room 222
Washington, DC 20554

Re: CC Docket Nos. 96-45 and 96-262

Dear Mr. Caton:

On April 2, 1997 Gerald Salemme and Joel Lubin of AT&T, Tom Tauke and Frank Gumper of NYNEX, and Ed Young, Pat Hanley, and Alan Mettler of Bell Atlantic met with Tom Boasberg, Larry Atlas, Joe Farrell, and Jon Garcia of the Federal Communications Commission. The purpose of the meeting was to discuss in general terms a proposal by the three parties to achieve Universal Service and access charge reform. Following the meeting, the AT&T, Bell Atlantic, and NYNEX representatives developed a more detailed proposal, a copy of which is attached.

Highlights of the proposal include:

- $400M net reductions in telecommunications charges to consumers;
- Full funding for the Joint Board recommendations to connect schools, libraries, and rural non-profit health care providers;
- $500M increase in support to rural local exchange carriers to allow them to reduce access charge and maintain affordable rates;
- Increased support for Lifeline and Linkup programs.

We request that the attached be made part of the record in the proceedings captioned above.

Sincerely,

Attachment

cc: Chairman Reed E. Hundt
Commissioner James H. Quello
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Mr. James Coltharp
Mr. Daniel Gonzalez
Mr. James Casserly
Mr. Thomas Boasberg
Ms. Regina M. Keeney
Mr. A. Richard Metzger, Jr.
Ms. Kathleen B. Levitz
Mr. John Nakahata
Mr. Joseph Farrell
Mr. James D. Schlichting
Mr. Richard K. Welch

AT&T/Bell Atlantic/NYNEX Access Charge Reform and Universal Service Proposal

Universal Service

Universal Service will be supported through funds designed to meet the varied needs of the industry and society.

1. A Rural Local Exchange Company (LEC) Fund that includes the following components:
   - The existing high cost fund support for small LECs
   - The existing Long Term Support for small LECs
   - The existing DEM Weighting support for small LECs
   - New support designated to reduce the disparity between the access charges of rural LECs and large companies

   This fund would be approximately $1.64 B. Funding obligations for this fund would be assessed to carriers based upon their share of total interstate retail revenues.

2. A National Services Fund that includes the following components:
   - $2.25 B for schools and libraries that implements the Joint Board recommendation based upon the Telecommunications Act of 1996. The education component of this fund would begin to be implemented on July 1, 1997.
   - Approximately $400 M for discounted services to rural not-for-profit health care providers.
   - Approximately $650 M to support expanded Lifeline and Link-up programs in all states. The Lifeline fund would support the $3.50 SLC charge, the $.75 Connect America charge, and the $1.00 carrier PSL charge.

   The components of this fund would total approximately $3.3 B. Because of the national scope and importance of this fund, Carrier obligations for funding would be assessed to carriers based upon their share of total interstate and intrastate retail revenues. Mechanisms need to be developed to insure that no segment of the telecommunications industry, either wireline or wireless, pay more than their fair share to these funds.
3. The LEC obligation to these funds will be recovered in the following manner:
   - A "Connect America" charge to end users on a per line basis. This total charge will be implemented in three phases consistent with the timing of the overall funding requirements. The residential charge will be a $ .25 on July 1, 1997, with increases of $ .25 on January 1, 1998 and July 1, 1998. This change will be decreased after the wiring of the schools and libraries is concluded.
   - The additional obligations for toll will be recovered by an exogenous adjustment to the interexchange basket.
   - The additional obligations for special access purchased by end users would be recovered, at the companies option, through a separate mechanism outside of price caps applicable to end users only.

4. A high cost fund for large LECs that serve costly geographic markets would be established. This part of the fund would be approximately $ 300 M equivalent to the current level of high cost funding provided to large LECs. Funding obligations for this fund would be assessed to carriers based upon their share of total interstate retail revenues. LECs would collect their obligation based upon total interstate revenues (subject to SLC caps). As such, a portion of the LEC obligation would flow back to the IXCs through carrier access changes.

Access Reform

The new competitive marketplace created by the Act and the Commission's decision in its August 8th Interconnection Order requires substantial reform of the current access structure. The ability of local exchange competitors to order combinations of unbundled network elements and thereby avoid access charges requires that usage access prices move closer to economic costs. In order to insure that all LECs enter this competitive environment on an equal footing, the following steps should be undertaken. The proposal will be implemented on three specific dates. Coincident with initial implementation of the Universal Service Funds on July 1, 1997 there will be access charge and toll reductions. By July 1, 1997 the Commission will adopt the price cap and access structure changes proposed. Between July 1997 and January 1, 1998 the Commission will develop the specific mechanisms necessary to implement the changes on January 1, 1998. On July 1, 1998 the remaining components of the plan, including further rate reductions will be implemented.

Effective July 1, 1997:

- To implement the new access structure LECs will first set all price cap indices (PCI) equal to actual price indices (API) and equal to service band indices (SBI).
- The TIC will be removed from the transport basket and established as a separate basket.
- Each LEC determines its access rate reduction amount for effect July 1st, by taking the larger revenue reduction calculated under the following steps:
    1. Calculate the revenue reduction resulting from using the current Price Cap Rules.
    2. Calculate the revenue reduction required to reduce the TIC by 20% (first step in 5 year phase out).
    3. Calculate the revenue reduction required to reinitialize rates to a 11.25% ROR.
- All reductions applied to reduction of the TIC rate element (up to 80% of total TIC pending FCC determination of "service-related" TIC costs). Any excess reduction is applied to the CCL.
- Increase the cap on Single Line Business SLC from $3.50 to $6.00 and increase the cap on Multiline Business SLC from $6 to $8 and reduce CCL. These rates will increase from their current levels to the lower of cost or the cap.
- After reductions all PCIs set equal to APIs and SBIs.
- To determine price cap productivity, the Commission should review the effects of market place and rate structure changes.
- No changes to separations cost allocations or demand stimulation.

Effective January 1, 1998:

- Establish a Presubscribed Line Charge (PSL) billed to interexchange carriers. Cap PSL charge at $1 for residence lines and $2 for business lines. Target reductions to cover non-traffic sensitive (NTS) costs of CCL and then local switching rate elements.
    - PSL charge is an average charge per holding company.
    - If NTS costs are less than caps retain the 2 to 1 ratio of business to residence PSL charges.
- FCC completes definition of "service-related" components of TIC and initiates transition period to appropriate rate elements.
- The existing interim transport rate structure should be continued.
- Collapse the current common line and switching baskets into a single basket subject to switching basket PCI.
- Combine the LS, Information surcharge, and any residual CCL into a single usage rate.
- Require that terminating access rate be no higher than the originating access rate for all carriers.
- With the opening of local exchange markets to increased competition the Commission should consider the appropriateness of additional pricing flexibility for ILECs under the new price cap structure that should also be effective 1/1/98.

Effective July 1, 1998:

Continue phase-out of the remaining TIC over four years by targeting all reductions to TIC. Amount of reduction determined by taking the greater of 25% of TIC on 1/1/98 or the annual reduction calculated using price cap rules.